SENATE COMMITTEE ON EDUCATION
Senator Connie Leyva, Chair
2019 - 2020 Regular

Bill No:	SB 174	**Hearing Date:**	April 24, 2019
Author:	Leyva		
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Urgency:	No	**Fiscal:**	Yes
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Subject: Early childhood education: reimbursement rates.

SUMMARY

This bill modifies the state's system and rates for reimbursing subsidized child care and development programs by creating a more uniform reimbursement system reflecting regional costs of care, and establishes the "Quality Counts California Pilot Reimbursement Program" as a pilot program to provide higher reimbursement rates to alternative payment program (APP) providers for meeting certain quality standards.

BACKGROUND

Existing law:

1) Establishes the Child Care and Development Services Act to provide child care and development services as part of a coordinated, comprehensive, and cost-effective system serving children from birth to 13-years-old and their parents including a full range of supervision, health, and support services through full- and part-time programs. (Education Code § 8200 et seq.)

2) Defines "child care and development services" to mean services designed to meet a wide variety of children's and families' needs while parents and guardians are working, in training, seeking employment, incapacitated, or in need of respite and states that these services may include direct care supervision, instructional activities, resource and referral programs, and alternative payment arrangements. (EDC 8208 (j))

3) Requires the Superintendent to develop standards for the implementation of quality programs and outlines indicator of quality to include, among other things, a physical environment that is age appropriate and meets applicable licensing standards, program activities and services that are age appropriate and meet the developmental needs of each child and program activities and services that meet the needs of children with exceptional needs and their families and other support services. (EC § 8203)

4) Requires general childcare and development programs, migrant childcare and development programs, campus childcare and development programs, state preschool programs, childcare and development services for children with special needs, infant care and development services programs and any other of these programs operated through family childcare homes to employ a program director

and specifies the administrative and programmatic responsibilities of the director. (EC § 8244)

5) Requires persons employed as teachers, supervisors or program directors in state subsidized childcare and development programs are required to hold a permit issued by the Commission on Teacher Credentialing as specified. (EC § 8360 and 8360.1)

6) Requires persons employed as teachers in a child development program to possess a permit issued by the Commission on Teacher Credentialing authorizing service in the care, development, and instruction of children in a childcare and development program and further prescribes criteria to be eligible to serve in an instructional capacity in a program. (EC§ 8360)

7) Authorizes the Superintendent to adopt rules and regulations that provide clear guidelines for the selection of child development contracting agencies and to specify adequate standards of agency performance. (EC § 8261)

8) Requires the Superintendent to establish rules and regulations for the staffing of all center-based childcare and development programs under contract with the department, as provided. (EC § 8264.7)

9) Requires the Superintendent to implement a plan that establishes reasonable standards and assigned reimbursement rates for child care and development services, to vary by length of program year and hours of service, and establishes amounts for, and provides for an annual cost-of-living adjustment to, the standard reimbursement rate. (EC § 8265)

10) Requires the Superintendent to implement a plan that establishes reasonable standards and assigned reimbursement rates for child care and development services, to vary by length of program year and hours of service, and establishes amounts for, and provides for an annual cost-of-living adjustment to, the Standard Reimbursement Rate (SRR) for contracted providers, and provides for adjustments to the SRR per specified reimbursement factors. (EC § 8265, 8266.1)

8) Provides for the establishment of regional market rate (RMR) ceilings for voucher-based child care and states Legislative intent that child care providers be reimbursed at the 85th percentile of the most recent regional market rate survey. (EC § 8222, 8357, 8447)

ANALYSIS

This bill:

Standard Reimbursement Rate System Plan for Contracting Agencies

1) Modifies provisions that require the Superintendent to implement a plan to establish standards and assign reimbursement rates for subsidized childcare and

development programs by, in addition to current law requirements, including in the assignment of reimbursement rates the following variables:

a) Regional reimbursement ceiling, as prescribed.

b) Quality adjustment factors to address the cost of staffing ratios, specified in current law.

c) Any additional adjustment factors specified in current law.

2) Prescribes a deadline of November 10 to the requirement in current law that the reimbursement system plan be submitted to the Joint Legislative Budget Committee and requires that the plan additionally include methodology, county rate targets as required under the provisions of this bill, and the total statewide funding amount necessary to reach annual rate targets for all agencies.

Standard Reimbursement Rate target for contracting agencies.

3) Notwithstands current law relative to adjustment factors applied for age of the child and those with special circumstances and requires, by July 1, 2020, the department establish a reimbursement rate target for each contracting agency that meets quality standards as specified, based on all of the following elements:

a) The regional market rate ceilings for the contracting agency's county, as applicable.

b) The quality adjustment factor for the age range of the children proposed to be served by the contracting agency, as a multiplier specified in the bill.

c) The program year and hours of service reimbursement factor outlined in the bill, if applicable.

d) Additional adjustment factors for special circumstances or services, as provided under existing law.

4) Prohibits that a contracting agency's rate target from being less than that agency's 2017 rate, by age range.

5) Decreases the reimbursement factor from 55 percent to 50 percent of the standard reimbursement rate for childcare and development providers serving children for less than four hours per day.

6) Requires the department, in order to meet the costs of providing quality standards, as specified beyond those calculated in the regional market rate survey to establish quality adjustment factors by age ranges, as follows:

a) 1.23 for infants who are 0 to 18 months of age.

b) 1.23 for toddlers who are 18 to 36 months of age.

c) 1.23 for preschoolers who are 36 months to six years of age.

d) 1.03 schoolage children who are 6 years of age and older.

7) Requires the reimbursement system plan to include a formula for annually adjusting reimbursement rates for each contracting agency, based on all of the following:

a) The annual Budget Act funding allocation for standard reimbursement rate increases as specified.

b) An equitable distribution of standard reimbursement rate increases to agencies, by county, as an equal percentage of the county outstanding rate target, for purposes of meeting the targets identified for a contracting agency, as specified in the bill.

c) Funding allocation for cost-of-living adjustments, if applicable.

Regional Market Rate ceiling and license-exempt rate adjustment for CalWORKs/ Alternative Payment Providers

8) Increases the regional market rate ceiling used to determine reimbursement for the cost of childcare for recipients of CalWORKs programs from the 75th percentile of the 2016 regional market rate survey to 85th percentile of the 2018 rate for that region.

9) Modifies the computation for reimbursement to license-exempt providers by requiring that reimbursement to license-exempt childcare providers not exceed 70 percent of the commensurate daily, hourly, weekly and monthly rate, for full-time and part-time care established according to the regional market rate ceilings, in lieu of 70 percent of the family childcare rate.

RMR Survey Methodology.

10) Strikes provisions specifying that the department contract to conduct and complete a regional market survey that is consistent with federal regulations, instead, requires that the survey be conducted pursuant to current state law.

11) Requires that the department conduct and complete a regional market rate survey no more frequently than once every two years, with a goal of completion by March 1.

12) Requires the department to update the regional market rate survey methodology to include:

a) Age ranges and hours of service ranges specified in this bill.

b) Direction for the survey to mitigate the impact of contractors located in deep-poverty census tracts on the market profile or county rate.

Quality Counts California Pilot Reimbursement Program.

13) Requires the department to create a Quality Counts California Pilot Reimbursement Program and states Legislature's intent that the pilot program allows childcare providers subject to regional market rate (RMR) receive higher reimbursement rates that are consistent with the standard reimbursement rate (SRR) and to meet higher quality standards for child development, as specified.

14) Requires that the department select up to five alternative payment program childcare systems, to participate in the pilot program and that these systems be representative of the broad geographic diversity of the state.

15) Requires that each alternative payment program childcare system selected by the department to participate in the pilot program allow licensed childcare providers serving at least a majority of children receiving subsidized childcare services to participate.

16) Makes other technical and non-substantive changes.

STAFF COMMENTS

1) ***Need for the bill***. California currently has a mixed delivery system that provides childcare, preschool, and early learning services for the state's youngest learners. Specifically, it has two different and unaligned systems for reimbursing early learning services. Child care providers meeting Title 22 standards are reimbursed using a Regional Market Rate that accounts for geographic economic cost factors, while directly state-contracted early learning centers that meet Title 5 standards, in addition to Title 22 standards, are reimbursed at a flat Standard Reimbursement Rate.

   According to the author, "This bifurcated rate system and inadequate reimbursement rates complicate efforts to fund and deliver high-quality early care and education (ECE) programs that meet the developmental needs of all children while addressing the health, safety, and wellbeing of the children being served. This current structure and overall lack of funding limit California's ability to increase teacher compensation, adequately resource ECE programs, and incentivize quality improvement efforts, ultimately limiting access and forcing many childcare providers out of business." This bill seeks to establish a single regionalized reimbursement rate system for childcare, preschool, and early learning services that would recognize the true cost of providing care including the costs associated with meeting quality standards.

2) ***State-subsidized childcare***. The state's childcare and development services are delivered to eligible families through two categories of providers Title 22 and Title 5 providers. Title 22 (Alternative Payment Programs/Voucher) providers include licensed centers, licensed family childcare homes, and license-exempt care. The licensed programs must adhere to the requirements of Title 22 of the California Code of Regulations and are reimbursed at the levels that are based on RMR. Title 5 (direct service contracts) The California Department of Education contracts directly with several hundred agencies for licensed child care, through

centers, Family Child Care Home Education Networks, and preschool. In addition to Title 22 licensing requirements, these providers must also adhere to the requirements of Title 5 of the California Code of Regulations and are reimbursed with the Standard Reimbursement Rate (SRR). Title 5 providers have the highest education, training, and health and safety standards. Yet, in some counties, providers with the lowest standards (license-exempt) are paid at a higher reimbursement rate than the Title 5 providers.

3) ***Provider Reimbursement Rates**.* California has established two methodologies for determining the reimbursement rates for child care and development services:

   a) *The Regional Market Rate (RMR).* Title 22 providers are reimbursed at the RMR. The RMR is determined by the RMR survey and varies depending on the geographical location of the provider. The RMR is based on a survey of licensed centers and family childcare homes measuring childcare rates of similar socio-economic conditions. Rate ceilings are established for each county according to estimates of the 75th percentile of rates for the various types of childcare settings. The county rate ceilings are differentiated by the age of the child (infant, preschool, school age), full-day or part-day care, and frequency of care (days per week). Families may choose a childcare provider that charges a rate above the RMR, but the provider would only be reimbursed at the RMR. Current law requires the RMR survey to be updated every two years. The RMR is currently set to the 75th percentile of the 2016 RMR, thereby providing a lower rate than if based on the most recent survey. This formula is an attempt to ensure that low-income families can receive similar levels of childcare service as higher-income families in the same region.

   b) *Standard Reimbursement Rate (SRR).* Title 5 providers (General Child Care, Migrant Child Care and State Preschool) are reimbursed at the SRR, which is a specific rate established in statute. Childcare and development providers that contract directly with the California Department of Education (CDE) must meet Title 5 requirements in addition to those of Title 22. Title 5 programs contract with, and receive payments directly from, CDE. These programs receive the same reimbursement rate (depending on the needs of the child) no matter where in the state the program is located. As of July 2018, the SRR for preschool is $48.28 per child per day of enrollment and for childcare is $47.98 per child day of enrollment.

In addition to issues that arise with a bifurcated rates system, concerns have been raised over the years that providers reimbursement rates do not keep pace with the actual cost-of-living and reimbursements are insufficient to cover the cost of care and services particularly in counties where the cost-of-living is well beyond the state median.

This bill seeks to streamline the two systems and proposes to establish a daily reimbursement rate that varies by county, composed of assigned RMR ceiling for that county multiplied by quality-based factors generated to address the cost of staffing ratios depending on the age of the children served.

4) ***Related reports and recommendations.*** Two recent reports have cited the need for a streamlined reimbursement rate system that would be better aligned with the true cost of care and offer a simplified process for the administration of subsidized childcare services. These include the following:

a) *The First 5 California Rate Reform Stakeholder group whitepaper. Developing a Single-Rate System Reimbursement Structure for California (November 2018)* – In this report the First 5 California workgroup authored a set of guiding principles and recommendations for development of a single, regionalized reimbursement rate system for child care, preschool and early learning services. The report raised some concerns that state's unaligned two-system approach for reimbursing subsidize care limits access, fails to maximize program quality and is forcing many childcare providers out of business in California. To that end, the report made several recommendations all of which are related to provisions of this bill. Those recommendations include:

i) Regionalized the Standard Reimbursement Rate (SRR). To regionalize the SRR the state should do all of the following; 1) hold all providers harmless; 2) revise the regional market rate (RMR) survey methodology to aligned age groups across program standards; 3) create a new county SRR that reimburses all programs at the current RMR ceiling of their county, incentivize quality by providing additional adjustment factors for meeting higher quality standards and incentivize full-day programs; 4) Set annual targets and close gaps between each county's current SRR and RMR through consistent rate increases across the state and; 5) evaluate changes to the system.

This bill requires the Superintendent to include the regional reimbursement ceiling in the assignment of reimbursement rates for subsidized childcare and additionally includes as a component of a contracting agencies target rate, the regional market rate ceiling for that agency's county.

ii) Revise the Regional Market Rate (RMR)-Setting Methodology. To review the RMR setting methodology the state should do all of the following; 1) Set common age ranges and times of care; 2) incorporate a cost analysis to inform future rate-setting methodologies; 3) Refine the RMR survey and future rate-setting methodologies to address equity issues and maximize access for children in poverty and; 4) ensure that future rate surveys or alternative rate-setting process prioritize simplicity and use of real-time data.

This bill requires the department to update the regional market rate survey methodology to include age and service hours ranges that align with the SRR standards and account for the impact of contractors located in poverty areas. This bill also increases the regional market rate ceiling used to determine reimbursement for the cost of childcare for recipients of CalWORKs/Alternative Payment Programs.

iii) Incentivize and Compensate for Quality. To incentivize and compensate for quality the state, as it relates to this bill, should do all of the following; 1) provide funding enhancements; 2) establish and adhere to consistent measures of quality; 3) communicate with parents and providers about quality; and 4) develop a sustainable and scalable statewide system.

This bill requires the Superintendent to also include as a variable in the assigned reimbursement rates quality adjustment factors to address the cost of staffing ratio and additionally include as a component of a contracting agencies target rate, the quality adjustment factor for the age of the child served by the program. This bill additionally proposes a pilot program that would provide higher reimbursement rates to alternative payment program providers that choose to participate for meeting certain quality standards.

b) *Blue Ribbon Commission. California Assembly Blue Ribbon Commission on Early Childhood Education Report (March 2019).* The Assembly Blue Ribbon Commission held a hearing on March 11, 2019 on its draft report regarding development of an early learning system that meets the needs of children, families, and providers. The commission asserts that the current funding for the system is outdated and the need for access to childcare continues to grow. The report provides numerous recommendations for topics within early childhood education, some of which are related rate reform and quality improvement. Within its recommendations for rate reform, the report notes that the commission concurs with the multi-step recommendations of the First 5 working group outlined in a) above.

5) ***Quality adjustment factor.*** Current law authorizes an adjustment increase in the Standard Reimbursement Rate, recognizing that there are higher costs to serve certain populations, including children with exceptional needs, severely disabled infants, toddlers, limited-English-speaking and children at risk of neglect, abuse, or exploitation. Further current law establishes standards for the implementation of quality programs and outlines indicators of quality that, among other things, range from various staffing requirements, and the condition of the physical environment to implementation of program activities that are age appropriate and meet the developmental needs of each child. This bill establishes a new adjustment factor for the age range of children who are served by childcare programs that meet designated quality standards for purposes of incorporating costs of meeting those standards into the reimbursement rate target for each contracting agency.

6) ***Related and prior legislation.***

AB 125 (McCarty, 2019) is identical to this bill. AB 125 is pending hearing in the Assembly Committee on Education.

AB 2125 (Ridley-Thomas, 2014) similar to this bill, would have required the Superintendent of Public Instruction to review the plan that establishes standards and assigns reimbursement rates for child care and development programs, and to submit recommendations for a single reimbursement system that reflects the actual current cost of child care based on the most recent regional market rate survey. AB 2125 was placed on suspense in the Senate Appropriations Committee.

SUPPORT

California Alternative Payment Program Association
California Children and Families Commission
California Family Resource Association
California Federation of Teachers
California State Council of Service Employees
Child Care Alliance of Los Angeles
Child Care Resource Center
Child360
Children and Families Commission of Los Angeles County
Common Sense Kids Action
Community Child Care Council of Sonoma County
Early Edge California
Everychild California
First 5 California
First 5 Lake County
First 5 Sacramento
First 5 San Benito
First 5 San Bernardino
First 5 Santa Clara County
First 5 Solano Children And Families Commission
Los Angeles County Office of Education
Oakland Unified School District
United Domestic Workers of America-AFSCME Local 3930/AFL-CIO

OPPOSITION

None received

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